

IRS Fact Sheet

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IRS Obtains More Than 100 Injunctions Against Tax Scheme Promoters

FS-2005-15, April 2005

The Internal Revenue Service announced today that it has obtained civil injunctions against more than 100 promoters of illegal tax avoidance schemes and fraudulent return preparers in an ongoing crackdown that began in 2001.

Many of the injunctions, obtained in cooperation with the Department of Justice, also order the promoters to turn over client lists and to cease preparing federal income tax returns for others.

Signaling a renewed fight against tax fraud, the federal government stepped up the use of civil power four years ago. Civil injunctions have subsequently been used to stop:

- Abusive trusts that shift assets out of a taxpayer's name but retain that taxpayer's control over the assets.
- The misuse of "Corporation sole" laws to establish phony religious organizations.
- Frivolous "Section 861" arguments used to evade employment taxes.
- Claims of personal housing and living expenses as business deductions.
- "Zero income" tax returns.
- Abuse of the Disabled Access Credit.
- The claim that only foreign-source income is taxable.

The IRS becomes aware of abusive promoters through a variety of means, including ongoing examinations, Internet and media research or referrals from external sources such as tax professionals. If the findings of an investigation support a civil injunction, the IRS refers the case to the Department of Justice.

If the Justice Department concurs, it files suit against the promoter requesting that the court order the promoter to refrain from the fraudulent activity. Depending on the facts and circumstances of the case, the court may issue a temporary restraining order, a temporary injunction or a permanent injunction.

At present, the courts have issued injunctions against 99 abusive scheme promoters — 81 permanent injunctions and 18 preliminary injunctions. They have issued injunctions against 17 abusive return preparers — all permanent injunctions. The Justice Department has filed an additional 49 suits seeking injunction action — 28 against scheme promoters and 21 against return preparers.

The IRS is currently investigating more than 1,000 additional promoters for possible referral to the Justice Department and conducting individual examinations on thousands of tax scheme participants.

“I encourage the public to bring questionable promotions and abusive preparers to our attention,” said Kevin M. Brown, commissioner of the IRS Small Business/Self-Employed Division, which conducts most of the IRS investigations. “We give serious attention to every referral we receive.”

To report an abusive tax scheme promoter or return preparer, taxpayers can call the tax fraud hotline at 1-800-829-0433.

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